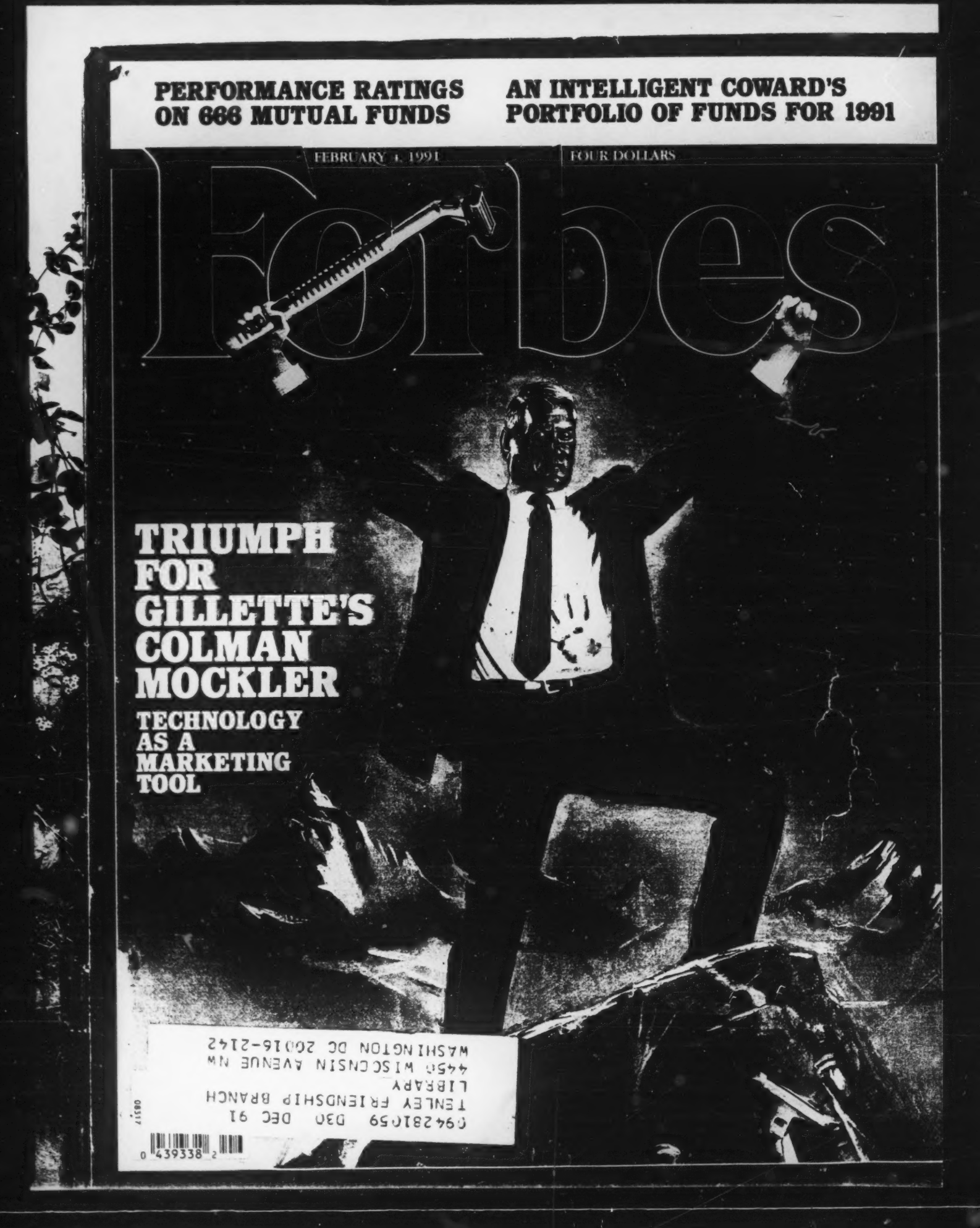
PERFORMANCE RATINGS ON 666 MUTUAL FUNDS

AN INTELLIGENT COWARD'S PORTFOLIO OF FUNDS FOR 1991

FEBRUARY 4, 1991 FOUR DOLLARS

Forbes



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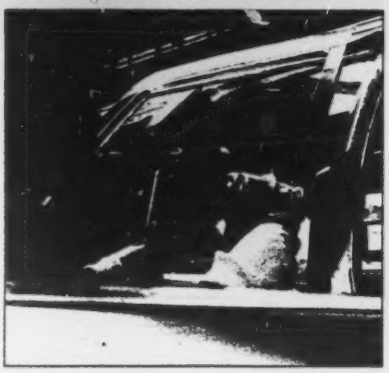

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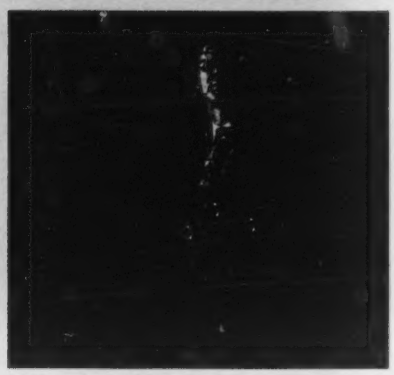

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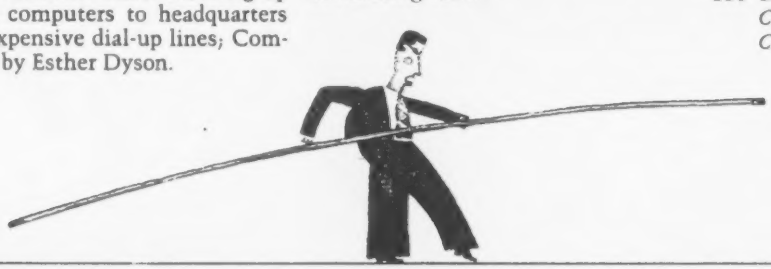

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February 4, 1991 Volume 147 Number 3 Forbes (ISSN 0015 6914) is published biweekly except weekly during two weeks in October, by Forbes Inc., 60 Fifth Ave., New York, N.Y. 10011. Second-class postage paid at New York, N.Y. and at additional mailing offices. Canadian second-class postage paid, permit number 9490. Subscription $52 a year, U.S.A. Postmaster: Send address changes to Forbes, 60 Fifth Ave., New York, N.Y. 10011.

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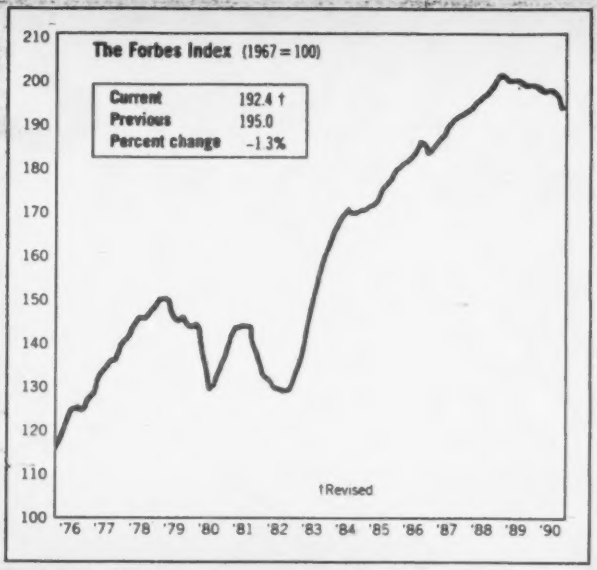
The Forbes Index



At least stagflation isn't back—yet. The current economic downturn is not accompanied by the runaway prices of the 1974 and 1981 recessions. At the retail level the consumer price index rose 0.2% in November. Wholesale prices declined 0.8% in December. This drop in the seasonally unadjusted producer price index (finished goods) is the largest since March 1986. For the year, the producer price index increased 5.6%, against a 4.9% gain in 1989. The all-commodity producer price index, which measures wholesale prices in all stages of production, rose 5% in 1990.

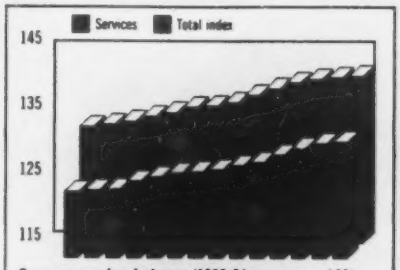
Other key rates	Source	Status
Prime rate	Chase Manhattan Bank	9.25%
Auto sales year to date vs. 1989[1]	Ward's Automotive	-2.6%
Index of leading indicators November vs. October	Dept of Commerce	-1.2%
Trade balance 12 months ended October 1990	Dept of Commerce	-$103 bil
All-commodity producer price index Dec vs. 1989[2]	Dept of Labor	5.0%
GNP 3rd quarter vs. 2nd—annualized growth	Dept of Commerce	1.4%
NBER Experimental Recession Probability Index[3]	Natl Bureau of Economic Research	14.0%

[1] U.S.-based manufacturers, excludes imports, as of 12/31/90. [2] Wholesale goods. [3] November 1990.

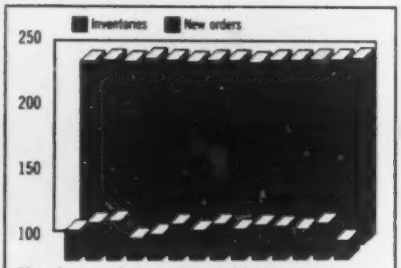
Index Components

The Forbes Index is a measure of U.S. economic activity composed of 8 equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, new housing starts, total retail sales, the level of new orders for durable goods compared with manufacturers' inventories, personal income, total consumer installment credit.

To measure these 8 elements, FORBES monitors 10 series of U.S. government data. The last 14 months' data for each series are presented below.



Consumer price indexes (1982-84 average = 100) all urban consumers, unadjusted (Dept. of Labor)



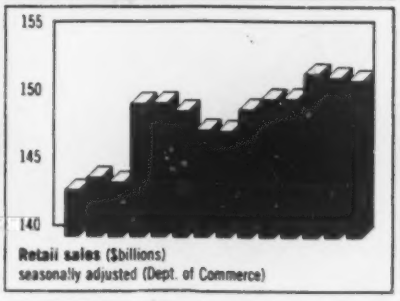
Manufacturers' new orders and inventories ($billions) seasonally adjusted (Dept. of Commerce)

Industrial production index (1987 = 100) seasonally adjusted (Federal Reserve)

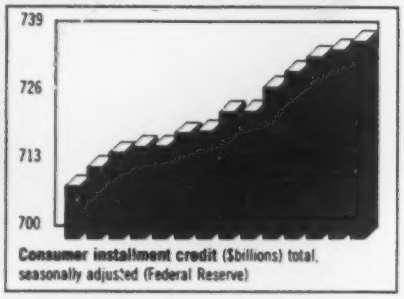
New housing starts (thousands) privately owned, unadjusted (Dept. of Commerce)

Personal income ($billions) wage and salary disbursements, seasonally adjusted (Dept. of Commerce)

New unemployment claims average for month (thousands) seasonally adjusted (Dept. of Labor)



Retail sales ($billions) seasonally adjusted (Dept. of Commerce)



Consumer installment credit ($billions) total, seasonally adjusted (Federal Reserve)

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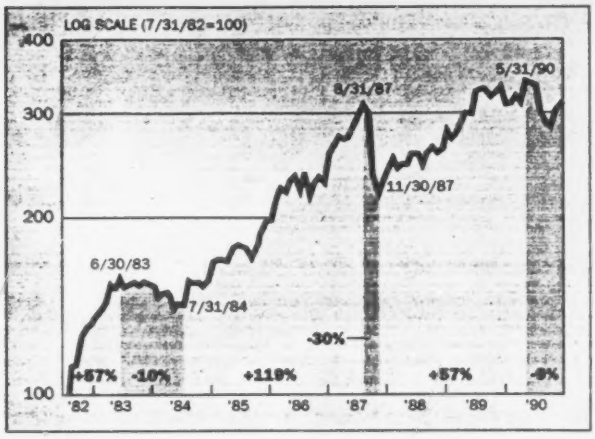
Stock and Balanced Funds



This update of the annual fund survey *(Sept. 3, 1990)* covers stock and balanced funds below, taxable bond funds on page 110 and municipal bond funds on page 112.

We rate funds separately for bull and bear markets. If you want good recent performance with a proven record of riding bull markets, look for a fund that scores an A in down markets and a B or better in up markets, and didn't lose money last year. You'll find four: Franklin Growth Fund, Investment Co. of America, Mexico Fund and Phoenix Growth Fund. A fifth, Fidelity Congress Street Fund, is an exchange fund and closed to new investors.

This table includes stock and balanced funds that have at least $25 million in assets and have been around for at least two market cycles *(see chart)*. The last two up-and-down cycles go back to July 1984. Funds dating back to July 1982 are rated over three cycles.

Our data sources include CDA Investment Technologies and Lipper Analytical Services.

Fund	Performance in UP —markets—	DOWN	12-month total return
ABT Growth & Income Trust	C	C	-9.2%
ABT Utility Income Fund	D	A+	-6.1
*Acorn Fund	B	C	-17.6
*Adams Express	D	B	0.9
Aegon USA Growth Fund	D	B	-6.2
AFA National Aviation & Technology	B	D	-19.2
AFA National Telecom & Technology	D	D	-18.5
Affiliated Fund	C	B	-5.4
Aim Equity-Charter Fund	C	B	8.1
Aim Equity-Constellation Fund	A+	F	-4.1
Aim Equity-Weingarten Equity	A+	C	5.5
Aim Summit Fund	B	D	0.9
Alliance Balanced Shares	C	B	-2.2
Alliance Fund	B	D	-3.0
†Alliance Global-Small Cap	A	D	-24.9
Alliance Growth & Inc	C	B	-1.8
†Alliance International Fund	A	C	-21.0
Alliance Quasar Fund	A+	D	-23.4
Alliance Technology Fund	A+	F	-2.6
Amcap Fund	C	B	-4.1
American Balanced Fund	B	C	-1.6
American Capital Comstock	C	C	-3.4
*American Capital Convert Secs	B	D	-8.3
American Capital Emerging Grow	D	C	1.9
American Capital Enterprise	B	D	-2.9
American Capital Equity Income	B	D	-4.6
*American Capital Exchange Fund	B	B	2.1
American Capital Growth & Inc	C	B	-5.2
American Capital Harbor Fund	A	D	-1.2
American Capital Pace Fund	C	C	-5.9
American Growth Fund	D	A	-6.9
American Investors Growth	C	F	-17.5%
American Leaders Fund	D	A	-1.8
American Mutual Fund	D	A	-1.6
American National Growth	B	D	-3.0
American National Income	D	A	0.7
AMEV Capital Fund	B	C	-9.5
AMEV Fiduciary Fund	A	D	-11.1
AMEV Growth Fund	A	D	-6.3
*Analytic Optioned Equity Fund	D	A+	1.5
*†ASA Limited	D	D	-32.7
Axe-Houghton Fund B	B	C	7.2
Axe-Houghton Growth	A	D	6.4
*Babson Enterprise Fund	B	D	-15.9
*Babson Growth Fund	C	C	-9.4
Bffird Capital Development Fund	B	D	-7.6
*Baker, Fentress & Co	D	C	-19.8
*Bancroft Convertible Fund	D	C	-4.6
*Bartlett Capital-Basic Value	D	A	-9.6
*Bergstrom Capital	C	A	5.5
Boston Co Capital Appreciation	B	B	-13.4
Boston Co Special Growth Fund	C	C	-3.1
Bull & Bear Capital Growth	C	D	-26.2
†Bull & Bear Gold Investors	D	D	-22.1
Burnham Fund	D	A+	0.1
Calvert Social Inv-Managed Grow	C	C	1.7
*Capital Exchange Fund	C	A	5.7
Cardinal Fund	C	A	-6.3
Carnegie-Cappiello-Growth	B	C	-8.3
*Castle Convertible Fund	D	C	-3.8
*Central Securities	C	D	-11.5
*Century Shares Trust	C	A	-7.9

*Fund has no load or shareholder-paid 12b-1 plan. †Foreign funds were rated over down market periods from 3/31/84 to 7/31/84, 8/31/87 to 10/31/87, and 12/31/89 to 12/31/90, and for up market periods from 9/30/82 to 3/31/84, 7/31/84 to 8/31/87, and 10/31/87 to 12/31/89. Foreign market cycles were measured with the dollar-adjusted Morgan Stanley Capital International EAFE (Europe Australia Far East) Index.

Stock and Balanced Funds

Fund	Performance in UP —markets—	DOWN	12-month total return
*CGM Cap Development	A+	D	1.5%
*CGM Mutual Fund	A+	D	1.1
*Chestnut Street Exchange Fund	B	B	–0.7
Cigna Growth Fund	B	C	–5.0
Cigna Value Fund	B	C	1.9
*Clipper Fund	C	A	–7.6
Colonial Fund	A	D	–7.5
Colonial Growth Shares Trust	A	C	–10.6
Colonial Strategic Inc-Diversified	F	A	–6.8
*Columbia Growth Fund	A	C	–3.3
Commonwealth Inv-Balanced	C	C	0.8
Composite Bond & Stock Fund	C	C	0.1
Composite Growth Fund	D	B	–5.9
*Copley Fund	D	A+	–1.5
Country Capital Growth Fund	C	C	–3.8
Dean Witter American Value	C	C	–0.9
Dean Witter Devel Growth Secs	D	D	–3.8
Dean Witter Div Growth Secs	C	A	–7.2
Dean Witter Natural Res Devel	C	D	–8.7
†Dean Witter World Wide Inv	C	A	–10.2
Delaware Group Decatur Fund-I	C	B	–12.2
Delaware Group Trend Fund	A+	F	–24.5
*Depositors Fund of Boston	B	C	–1.5
*Diversification Fund	B	C	–1.5
*Dodge & Cox Balanced Fund	A	C	1.0
*Dodge & Cox Stock Fund	A	B	–5.1
*Dreyfus Convertible Securities	B	D	–16.7
*Dreyfus Fund	D	A	–3.4
*Dreyfus Growth Opportunity Fund	C	C	–6.6
Dreyfus Leverage Fund	D	A	–1.5
*Dreyfus Third Century Fund	D	B	3.5
Eaton Vance Growth Fund	B	C	–4.8
Eaton Vance Inc Fund of Boston	F	B	–15.4
Eaton Vance Investors Fund	C	B	0.8
Eaton Vance Special Equities	D	C	2.3
Eaton Vance Stock Fund	C	A	0.6
Eaton Vance Total Return Trust	D	A+	0.1
Enterprise Group-Growth	B	C	–2.3
*Equity Strategies Fund	B	C	22.5
†EuroPacific Growth Fund	B	A	–0.1
*Evergreen Fund	B	C	–11.7
*Evergreen Limited Market Fund	A	B	–10.4
*Evergreen Total Return Fund	D	A	–6.2
*Exchange Fund of Boston	B	B	–2.1
FBL-Growth Common Stock	D	B	5.2

Fund	Performance in UP —market—	DOWN	12-month total return
*Federated Exchange Fund	C	B	–4.4%
*Federated Stock & Bond Fund	D	A	0.2
*Federated Stock Trust	C	A	–5.0
*Fidelity Congress Street Fund	A	A	1.0
Fidelity Contrafund	A	D	3.9
*Fidelity Destiny Portfolio I	A	C	–2.9
Fidelity Equity Income Fund	C	B	–13.9
*Fidelity Exchange Fund	B	B	–0.5
*Fidelity Freedom Fund	A	C	–10.0
*Fidelity Fund	B	B	–5.0
Fidelity Growth Company	A	D	3.6
Fidelity Magellan Fund	A+	C	–4.8
Fidelity Puritan Fund	B	C	–6.2
Fidelity Select-Energy	D	B	–4.5
Fidelity Select-Health Care	A+	C	24.1
Fidelity Select-Leisure	A	D	–22.3
Fidelity Select-Prec Metals & Mins	D	C	–21.1
Fidelity Select-Technology	A	D	12.0
Fidelity Select-Utilities	D	A+	0.5
Fidelity Special Situations-Initial	B	A	–6.6
*Fidelity Trend Fund	B	D	–12.7
*Fidelity Value Fund	B	D	–12.8
*Fiduciary Exchange Fund	A	C	2.3
*Financial Dynamics Fund	C	D	–6.4
*Financial Industrial Fund	C	D	–1.2
*Financial Industrial Income	C	A	0.9
*Financial Strategic-Energy	B	D	–16.5
*Financial Strategic-Gold	F	C	–23.2
*Financial Strategic-Health Sci	A	B	25.8
†First Investors Global Fund	B	C	–12.1
Flag Investors Telephone Income	B	A	–7.9
Flex-funds-Growth Fund	F	A+	4.3
Founders Blue Chip	B	B	0.4
Founders Growth Fund	B	D	–10.6
*Founders Special Fund	A	D	–10.6
FPA Capital Fund	B	D	–13.1
FPA Paramount Fund	C	A	2.2
FPA Perennial Fund	C	A	1.6
Franklin DynaTech Fund	B	C	3.2
Franklin Equity Fund	B	C	–9.0
†Franklin Gold Fund	C	D	–19.7
Franklin Growth Fund	B	A	2.1
Franklin Income Fund	D	B	–8.8
Franklin Option Fund	D	A	–8.8
Franklin Utilities Fund	D	A+	0.4

*Fund has no load or shareholder-paid 12b-1 plan. †Foreign funds were rated over down market periods from 3/31/84 to 7/31/84, 8/31/87 to 10/31/87, and 12/31/89 to 12/31/90, and for up market periods from 9/30/82 to 3/31/84, 7/31/84 to 8/31/87, and 10/31/87 to 12/31/89. Foreign market cycles were measured with the dollar-adjusted Morgan Stanley Capital International EAFE (Europe Australia Far East) Index.

Stock and Balanced Funds

Fund	Performance in UP —markets—	DOWN	12-month total return
Fundamental Investors	A	B	–6.3%
*Gateway Index Plus Fund	D	A	10.2
General Aggressive Growth	B	C	–1.9
*General American Investors	A	C	4.7
Gintel Erisa Fund	D	B	–5.1
*Gintel Fund	C	B	–6.7
*GIT Equity Trust-Special Growth	B	F	–15.9
Gradison Established Growth	C	B	–8.1
Growth Fund of America	B	C	–4.2
*Growth Industry Shares	C	C	–8.8
†GT Global Growth-Pacific	A	C	–10.9
Guardian Park Ave Fund	A	B	–12.3
John Hancock Growth Trust	B	C	–8.6
*Wayne Hummer Growth Fund	C	B	5.0
*IAI Regional Fund	A	B	–0.4
*IAI Stock Fund	C	B	–6.8
IDS Discovery Fund	B	D	0.0
IDS Equity Plus	B	C	–3.3
IDS Growth Fund	A+	D	3.1
IDS Mutual	C	B	–3.0
IDS New Dimensions Fund	A	B	5.3
IDS Progressive Fund	D	C	–17.7
IDS Stock Fund	C	B	1.7
IDS Strategy-Aggressive Equity	A	C	–0.7
IDS Strategy-Equity	C	B	–5.9
Income Fund of America	C	A	–1.3
Investment Co of America	B	A	1.4
Investment Port-Equity	C	C	–1.5
ITB-Growth Opportunities	C	C	–4.2
Investors Research Fund	A	C	–1.7
*Ivy Growth Fund	C	A	–3.8
*Janus Fund	B	B	–0.7
*†Japan Fund	B	B	–16.3
Kemper Growth Fund	A	C	3.7
†Kemper International Fund	B	C	–7.2
Kemper Summit Fund	B	D	–5.4
Kemper Technology Fund	B	C	0.3
Kemper Total Return Fund	A+	F	4.1
Keystone America Omega	A	D	–6.1
Keystone Custodian K-1	C	C	–1.9
Keystone Custodian K-2	B	D	–7.2
Keystone Custodian S-1	C	B	–5.1
Keystone Custodian S-3	B	C	–11.3
Keystone Custodian S-4	A	F	–6.0
†Keystone International Fund	D	C	–23.9
†Keystone Precious Metals	D	D	–26.1%
†Kleinwort Benson-Intl Equity	B	C	–14.7
Legg Mason Value Trust	C	B	–16.9
Lexington Corp Leaders Trust	B	B	–4.2
*Lexington Goldfund	D	B	–20.8
*Lexington Research Fund	C	C	–10.3
Lindner Dividend Fund	D	A	–6.5
Lindner Fund	D	A	–11.2
Lord Abbett Developing Growth	C	D	–6.4
Lord Abbett Value Appreciation	C	C	–4.6
Lutheran Brotherhood Fund	D	A	–2.0
*Horace Mann Growth Fund	B	C	–11.9
Mass Capital Development Fund	B	D	–4.4
Mass Financial Development	B	D	–6.0
Mass Financial Emerging Growth	A	D	–11.5
Mass Financial Special Fund	B	D	–11.8
Mass Financial Total Return	A	C	–2.3
Mass Investors Growth Stock	C	C	–4.8
Mass Investors Trust	B	B	–0.1
*Mathers Fund	D	A	10.4
Merrill Lynch Basic Value	B	B	–13.0
Merrill Lynch Capital Fund	C	A	1.0
Merrill Lynch Fund Tomorrow	D	B	–5.8
†Merrill Lynch Intl Holdings	C	B	–9.2
†Merrill Lynch Pacific Fund	A	C	–9.2
Merrill Lynch Phoenix Fund	A	D	–19.7
Merrill Lynch Special Value	D	D	–27.5
*†Mexico Fund	A+	A+	28.6
Mutual Benefit Fund	A	B	–5.3
Mutual of Omaha Growth	A	D	–8.4
Mutual of Omaha Income	D	A	3.5
*Mutual Series-Beacon	D	B	–8.2
*Mutual Series-Mutual Shares	D	A+	–9.8
*Mutual Series-Qualified	D	A+	–10.1
National Aggres Growth	C	D	–22.6
*National Industries Fund	D	B	3.1
National Stock Fund	D	B	–6.6
National Total Income Fund	C	A	–1.5
National Total Return Fund	B	D	–6.1
Nationwide Fund	B	B	0.3
Nationwide Growth Fund	C	B	–7.6
*Neuberger & Berman Guardian	B	B	–4.7
*Neuberger & Berman Manhattan	A	C	–8.0
*Neuberger & Berman Partners	D	A	–5.1
*Neuberger & Berman Sectors + Energy	D	B	–5.9

*Fund has no load or shareholder-paid 12b-1 plan. †Foreign funds were rated over down market periods from 3/31/84 to 7/31/84, 8/31/87 to 10/31/87, and 12/31/89 to 12/31/90, and for up market periods from 9/30/82 to 3/31/84, 7/31/84 to 8/31/87, and 10/31/87 to 12/31/89. Foreign market cycles were measured with the dollar-adjusted Morgan Stanley Capital International EAFE (Europe Australia Far East) Index.

Stock and Balanced Funds

Fund	Performance in UP —markets—	DOWN	12-month total return
New Economy Fund	B	C	–10.1%
New England Balanced	D	B	–10.6
New England Growth Fund	A	C	5.1
New England Retirement Equity	C	C	–13.6
†New Perspective Fund	B	B	–2.0
New York Venture Fund	A	B	–2.6
*Newton Growth Fund	B	D	–4.5
*Niagara Share Corp	C	C	–8.8
*Nicholas Fund	C	B	–4.8
*Nicholas II	C	B	–6.2
Oppenheimer Directors Fund	A	D	–6.9
Oppenheimer Equity Income	B	A	–1.4
Oppenheimer Fund	C	D	–4.5
†Oppenheimer Global Fund	C	B	–0.8
Oppenheimer Gold & Spec Mins	C	F	–26.8
Oppenheimer Premium Inc	F	A+	–7.7
Oppenheimer Regency Fund	D	D	–6.1
Oppenheimer Special Fund	D	B	–2.5
Oppenheimer Target Fund	A	D	–2.1
Oppenheimer Time Fund	A	C	–7.1
Oppenheimer Total Return	B	C	–3.8
Over-the-Counter Securities Fund	C	D	–20.5
Pacific Horizon-Aggres Growth	A	B	5.0
†PaineWebber Classic Atlas Fund	A	B	–7.4
PaineWebber Classic Grow & Inc	D	B	0.1
Pax World Fund	B	B	10.4
Penn Square Mutual Fund	C	B	–5.2
Pennsylvania Mutual Fund	B	B	–11.5
Permanent Port-Permanent	C	B	–3.9
*Petroleum & Resources Corp	D	B	–4.2
Philadelphia Fund	D	B	–11.4
Phoenix Balanced Fund	C	A	7.3
Phoenix Convertible Fund	B	B	4.2
Phoenix Growth Fund	B	A	6.0
Phoenix Stock Fund	B	B	–5.6
Phoenix Total Return	D	A	4.4
Pilgrim MagnaCap Fund	C	B	–1.9
*Pine Street Fund	C	B	–3.5
Pioneer Fund	C	C	–10.5
Pioneer II	B	C	–12.0
Pioneer Three	C	C	–13.0
*T Rowe Price Growth & Income	D	B	–11.1
*T Rowe Price Growth Stock Fund	C	C	–4.3
*†T Rowe Price International Stock	B	B	–8.9
*T Rowe Price New Era Fund	C	B	–8.8
*T Rowe Price New Horizons Fund	B	D	–9.7%
Princor Capital Accumulation	D	B	–10.8
Princor Growth Fund	B	D	–1.4
ProvidentMutual Growth	C	C	–9.0
ProvidentMutual Investment Shrs	C	B	–16.4
ProvidentMutual Total Return	C	C	–10.5
Pru-Bache Equity Fund	B	C	–14.7
†Pru-Bache Global Fund	C	C	–17.8
Pru-Bache Growth Oppor	B	D	–12.0
Pru-Bache Option Growth	C	B	–2.4
Pru-Bache Research Fund	C	C	–10.3
Pru-Bache Utility Fund	D	A+	–6.7
Putnam Convert Income-Growth	B	D	–10.0
Putnam Energy-Resources Trust	D	C	–4.9
Putnam Fund for Growth & Inc	C	A	2.4
George Putnam Fund of Boston	A	D	–1.0
†Putnam Global Growth	C	B	–9.2
Putnam Health Sciences Trust	A	C	15.5
Putnam Information Sciences	B	D	–6.2
Putnam Investors Fund	B	C	–2.8
Putnam Option Income Trust	D	C	–7.1
Putnam OTC Emerging Growth	A	D	–10.0
Putnam Vista Fund	A	C	–7.0
Putnam Voyager Fund	A	D	–2.9
Quest for Value Fund	C	B	–6.9
Rea-Graham Balanced Fund	C	B	–5.7
Royce Fund-Value	D	B	–13.7
*Safeco Equity Fund	B	C	–8.6
*Safeco Growth Fund	B	D	–15.0
*Safeco Income Fund	D	A	–11.9
Salomon Brothers Capital	A	D	–9.0
*Salomon Brothers Fund	C	C	–6.3
Salomon Brothers Investors	C	C	–6.4
*Salomon Brothers Opportunity	B	A	–16.0
*SBSF-Growth Fund	C	A	–2.7
Sci/Tech Holdings	D	C	–6.0
*Scudder Capital Growth	A	D	–17.0
*Scudder Development Fund	C	D	1.4
*Scudder Growth & Income Fund	C	B	–2.3
*†Scudder International Fund	B	B	–8.9
*Second Fiduciary Exchange Fund	C	C	–0.8
Security Action Fund	C	D	–10.1
Security Equity Fund	A	C	–4.7
Security Investment Fund	D	B	–3.0
Security Ultra Fund	C	F	–27.6

*Fund has no load or shareholder-paid 12b-1 plan. †Foreign funds were rated over down market periods from 3/31/84 to 7/31/84, 8/31/87 to 10/31/87, and 12/31/89 to 12/31/90, and for up market periods from 9/30/82 to 3/31/84, 7/31/84 to 8/31/87, and 10/31/87 to 12/31/89. Foreign market cycles were measured with the dollar-adjusted Morgan Stanley Capital International EAFE (Europe Australia Far East) Index.

Stock and Balanced Funds

Fund	Performance in UP markets	Performance in DOWN markets	12-month total return
Selected American Shares	D	A	–3.9%
Selected Special Shares	B	C	–6.9
Seligman Capital Fund	A+	D	1.4
Seligman Common Stock Fund	B	B	–3.9
Seligman Communications & Info	A	D	–11.1
Seligman Growth Fund	B	D	–5.2
Seligman Income Fund	D	B	–8.3
Sentinel Balanced Fund	C	B	1.9
Sentinel Common Stock Fund	C	A	–2.7
Sentinel Growth Fund	A	D	0.5
Sentry Fund	C	C	5.2
*Sequoia Fund	D	A+	–3.9
Shearson Aggressive Growth	A	D	–6.0
Shearson Appreciation	B	B	–0.3
Shearson Fundamental Value	D	B	–8.5
†Shearson Global Opportunities	C	C	–11.3
Shearson Invest-Growth	D	B	–4.5
Shearson Invest-Special Equities	D	D	–24.3
Shearson Telecommun-Growth	B	C	–13.5
Shearson Telecommun-Income	B	A	–1.8
*Sit New Beginning Growth Fund	B	C	–1.6
Smith Barney Equity Fund	C	B	–3.2
Smith Barney-Income & Growth	D	A	–9.5
†SoGen International Fund	C	A	–1.3
*Source Capital	D	A	–3.7
Sovereign Investors	D	A+	4.4
State Bond Common Stock Fund	B	C	0.9
*State Street Exchange Fund	A	C	–6.5
State Street Growth Fund	B	C	–4.7
State Street Investment Trust	B	B	–1.0
*SteinRoe Capital Opportunities	A	F	–29.1
*SteinRoe Special Fund	A+	C	–5.9
*SteinRoe Stock Fund	A	D	0.9
*SteinRoe Total Return Fund	C	C	–1.8
Strategic Investments Fund	F	F	–41.9
*Stratton Monthly Dividend Shares	F	A+	–3.8
Strong Investment Fund	D	A	2.7
Strong Total Return Fund	C	B	–7.1
†Templeton Foreign Fund	B	A	–2.9
†Templeton Global	C	B	–15.5
†Templeton Growth Fund	C	A	–8.8
†Templeton World Fund	C	B	–15.6
Thomson McKinnon-Growth	A	B	0.2
Thomson McKinnon-Oppor	B	C	–7.4
Transamerica Growth & Income	C	C	–0.5
Transamerica Technology Fund	C	D	–6.4%
*Tri-Continental Corp	B	B	–1.7
*20th Century Growth Investors	A+	D	–3.9
*20th Century Select Investors	A+	C	–0.5
*20th Century Ultra Investors	A+	D	9.0
*20th Century Vista Investors	A	F	–15.7
*UMB Stock Fund	C	A	–2.4
United Accumulative Fund	C	B	–10.2
United Continental Income Fund	A	D	–6.1
United Income Fund	A	A	–5.4
†United International Growth	C	B	–13.7
United New Concepts Fund	D	B	1.9
United Retirement Shares	B	D	1.8
United Science & Energy Fund	C	B	–3.6
*†United Services-Global Res	D	D	–10.7
*†United Services-Gold Shares	D	D	–34.2
US Trend Fund	B	C	–3.6
United Vanguard Fund	B	C	–3.6
*USAA Mutual-Aggressive Growth	B	D	–12.0
*USAA Mutual-Growth Fund	C	C	–0.1
*Value Line Fund	C	D	–0.7
*Value Line Income Fund	D	A	2.0
*Value Line Leveraged Growth Inv	C	D	–1.7
*Value Line Special Situations	D	D	–4.5
†Van Eck International Investors	D	D	–27.0
*Vance, Sanders Exchange Fund	B	C	0.5
Vance, Sanders Special Fund	D	D	–23.4
*Vanguard Explorer Fund	D	D	–10.8
*Vanguard High Yield Stock	D	A	–29.5
*Vanguard Index-500 Portfolio	B	B	–3.3
*Vanguard/Morgan Growth	A	C	–1.5
*Vanguard Small Cap Stock	C	F	–18.2
Vanguard Special-Energy	A	C	–1.4
†Vanguard Special-Gold & Prec	D	D	–19.9
Vanguard Special-Health Care	A	B	16.7
*Vanguard STAR Fund	C	C	–3.7
*†Vanguard Trustees Comm-Intl	B	A	–12.2
*Vanguard Trustees Comm-US	B	C	–8.3
*Vanguard Wellesley Income Fund	D	A+	3.7
*Vanguard Wellington Fund	A	C	–2.8
*Vanguard Windsor Fund	B	B	–15.5
Washington Mutual Investors	B	A	–4.2
Winthrop Focus Funds-Growth	D	D	–7.3
*WPG Fund	B	D	–10.2
*WPG Tudor Fund	A	D	–5.0

*Fund has no load or shareholder-paid 12b-1 plan. †Foreign funds were rated over down market periods from 3/31/84 to 7/31/84, 8/31/87 to 10/31/87, and 12/31/89 to 12/31/90, and for up market periods from 9/30/82 to 3/31/84, 7/31/84 to 8/31/87, and 10/31/87 to 12/31/89. Foreign market cycles were measured with the dollar-adjusted Morgan Stanley Capital International EAFE (Europe Australia Far East) Index.

Taxable Bond Funds

The funds listed below buy government bonds, corporate bonds and mortgage-backed securities like Ginnie Maes. We rate taxable bond funds over three market cycles covering the period June 30, 1980 to Dec. 31, 1990. Our rating system aims to reward consistency of performance as much as end results. A fund must have been in operation for at least two up and two down market periods—since Apr. 30, 1983—to be rated. Our benchmark is the Merrill Lynch Corporate/Government bond index. More information about the rating system appears in the annual fund survey *(Sept. 3, 1990)*.

As with equity funds, the idea is to show separately how well a fund does in bull and in bear markets. And, like equity funds, bond funds do not often shine in all kinds of weather. The ones that do well in bull markets (when interest rates are falling and bond prices are going up) tend to be the ones with the longest-maturity bonds. Portfolios of short-term bonds, by contrast, suffer the least during periods of rising interest rates but don't keep up with long bonds during bull markets, that is, when rates fall.

The following table rates taxable bond funds that have either $500 million in assets and 12 months of performance history, or $25 million and enough performance to be rated.

Total return reflects both interest income and gains or losses in principal. It does no good, of course, to collect a lot of interest and lose more than that in principal. Dean Witter High Yield Securities pays large dividends but still lost enough principal last year to turn in a total return of minus 39.8%.

Tax-exempt bond funds, shown in the table on page 112, are graded separately in up and down markets. For them, however, each month since Dec. 31, 1985 was treated as either a bull or bear month, according to the performance of the Shearson Lehman Hutton municipal bond index. It's been a mostly bullish period for the bond market, with declining interest rates. Thus, the ratings reflect the fact that long-term funds, which are higher in interest rate risk, do relatively well in bull markets and poorly in bear ones, while short-term funds do the reverse. As with taxable bond funds, very few municipal bond funds excel in both kinds of markets.

Fund	Performance in UP —markets—	DOWN	12-month total return
*AARP Inc-GNMA & US Treas			9.7%
*ACM Government Securities			8.4
AMA Family of Funds-US Govt Inc +	D	C	8.4
*AMEV Securities	C	D	4.2
AMEV US Govt Securities Fund	B	B	10.4
Aim High Yield Securities	F	A	–17.3
Alliance Bond-Monthly Inc	A	D	5.5
Alliance Mortgage Secs Income			11.0
*American Capital Bond Fund	C	B	6.1
American Capital Corp Bond	C	B	7.0
American Capital Govt Secs			8.7
American Capital High Yld Inv	D	B	–15.8
Axe-Houghton Income Fund	B	C	4.2
*Babson Bond Trust-Porfolio L	C	B	7.6
*Benham Treasury Note Fund	D	A	9.1
*Blackstone Income Trust			16.8
*Blackstone Target Term Trust			11.4
Bond Fund of America	B	C	3.3
Boston Co Managed Income	D	A	3.9
*Bunker Hill Income Securities	C	C	0.4
Cigna High Yield Fund	C	B	–9.0
Cigna Income Fund	A	C	4.1
*Circle Income Shares	C	B	4.4
*CNA Income Shares	B	C	0.4
Colonial Government Secs Plus			5.5
Colonial High Yield Securities	D	A	–15.7
Colonial Income Trust	C	D	1.5
Composite Income Fund	C	C	8.2
*Comstock Partners Strategy Fund			2.4
*Current Income Shares	A	D	5.9
*Dean Witter Government Income			10.5%
Dean Witter Govt Secs Plus			7.1
Dean Witter High Yield Secs	F	B	–39.8
Dean Witter US Govt Securities			8.5
Delaware Group Delchester H-Y-I	C	C	–11.9
*Dreyfus A Bonds Plus	C	B	4.8
Dreyfus GNMA Fund			9.7
*1838 Bond-Debenture Trading	A+	F	2.8
*Excelsior Income Shares	B	F	8.4
*Federated GNMA Trust	B	C	10.4
Federated High Income Securities	D	C	–12.7
*Federated Income Trust	B	B	10.4
*Federated Intermediate Govt			9.4
*Federated Short-Intermed Govt			9.3
*Fidelity Flexible Bond Fund	B	D	5.9
*Fidelity Ginnie Mae			10.5
*Fidelity Government Securities	C	B	9.5
*Fidelity High Income Fund	C	A	–3.9
*Fidelity Intermediate Bond Fund	C	A	7.6
*Financial Bond Shs-Select Inc	C	C	4.9
First Investors Fund for Income	F	B	–18.7
First Investors High Yield Fund			–17.1
*Fort Dearborn Income Securities	A+	F	5.6
FPA New Income Fund	C	B	8.4
Franklin AGE High Income Fund	D	B	–14.1
Franklin Adj US Govt Securities			9.5
Franklin US Government Securities	B	D	10.7
Fund for US Govt Securities	B	D	9.7
Government Income Securities			9.5
John Hancock Bond Trust	B	D	5.9

*Fund has no load or shareholder paid 12b-1 plan.

Taxable Bond Funds

Fund	Performance in UP —markets—	DOWN	12-month total return
*John Hancock Income Securities	A	D	6.9%
*John Hancock Investors Trust	B	B	5.7
John Hancock US Govt Securities	D	B	7.0
*Hatteras Income Securities	B	C	3.2
Home Investors Govt Guar Inc	C	D	9.6
*IAI Bond Fund	B	D	7.0
IDS Bond Fund	A	C	4.7
IDS Extra Income Fund			–10.6
IDS Selective Fund	A	D	6.5
*INA Investment Securities	B	D	3.1
*Independence Square Income Secs	A	F	3.4
*InterCapital Income Securities	A	C	2.2
Investment Port-Govt			7.1
Investment Port-High Yield			–15.6
Kemper Diversified Income Fund	F	A+	–12.5
Kemper High Yield Fund	D	A	–12.8
Kemper Inc & Cap Preservation	B	C	6.5
Kemper US Government Secs	B	D	9.7
Keystone Custodian B-1	B	D	6.7
Keystone Custodian B-2	C	C	–2.0
Keystone Custodian B-4	D	A	–21.5
*Lexington GNMA Income Fund	C	D	9.2
*Lincoln National Income	C	A+	0.8
Lord Abbett Bond-Debenture	D	A	–7.5
Lord Abbett US Govt Secs	B	B	9.3
Lutheran Brotherhood Income	A	C	5.7
Mass Financial Bond Fund	A	D	7.1
Mass Financial High Inc-Series I	D	A	–17.8
*MassMutual Corporate Investors	C	A+	2.8
Merrill Lynch Corp-High Inc	D	A	–4.6
Merrill Lynch Corp-High Qual	B	D	7.0
Merrill Lynch Corp-Intermed	C	C	8.4
Merrill Lynch Federal Securities			10.4
Merrill Lynch Retire/Income			9.5
MetLife-State Street Govt Inc			8.9
*MFS Charter Income			–1.4
MFS Government Income Plus			3.5
*MFS Government Markets Income			7.6
*MFS Intermediate Income			7.2
MFS Lifetime Govt Income +			4.5
*MFS Multimarket Income Trust			2.3
Midwest Inc-Intermed Term Govt	D	B	6.9
*Montgomery Street Income Secs	B	D	5.8
Mutual of Omaha America	D	A	7.8
*Mutual of Omaha Interest Shares	A	C	5.9
National Bond Fund	D	D	–13.8
Nationwide Bond Fund	C	D	8.2
New England Bond Income	C	C	7.5
*Nicholas Income Fund	D	C	–1.0
*Northeast Investors Trust	C	C	–9.2%
Oppenheimer High Yield Fund	D	B	–3.2
*Pacific American Income Shares	A	C	5.9
PaineWebber Fixed Inc-US Govt			9.3
Phoenix High Yield Fund	D	B	–1.1
Pilgrim High Yield Trust	D	A	–9.3
*Pilgrim Prime Rate Trust			10.0
Pioneer Bond Fund	C	B	7.3
*T Rowe Price High Yield Fund			–11.0
*T Rowe Price New Income Fund	D	B	8.6
Pru-Bache GNMA Fund	C	C	8.5
Pru-Bache Government Plus			7.8
Pru-Bache Govt Secs-Intermed	C	B	7.6
Pru-Bache High Yield Fund	D	B	–8.8
*Prudential Strategic Income Fund			2.1
Putnam GNMA Plus Trust			8.2
Putnam High Income Government			7.4
Putnam High Yield Trust	D	B	–5.8
Putnam Income Fund	A	C	4.4
*Putnam Intermediate Govt Inc			10.2
*Putnam Premier Income Trust			3.9
Putnam US Govt Guaranteed Secs			9.9
*Scudder Income Fund	B	C	8.3
Security Income-Corporate Bond	C	A	6.5
Sentinel Bond Fund	C	C	7.1
Shearson High Yield	D	A	–11.8
Shearson Income-Mortgage			9.2
Shearson Invest-Govt Secs			7.0
*State Mutual Securities Trust	C	B	4.4
*SteinRoe Intermed Bond	B	D	7.1
Transamerica Govt Securities			9.2
*Transamerica Income Shares	A+	D	7.8
Transamerica Inv Quality Bond	B	D	7.8
*20th Century US Governments	D	A	8.3
United Bond Fund	A	D	4.2
United High Income Fund	D	B	–14.7
US Government Secs			9.8
*USAA Mutual-Income Fund	A	C	6.6
*USLife Income Fund	B	C	4.0
*Value Line US Government Secs	B	C	10.3
Van Kampen Merritt US Govt			9.6
*Vanguard Fixed Inc-US Treas			5.7
*Vanguard Fixed Income-GNMA	B	C	10.3
*Vanguard Fixed Income-High Yld	D	B	–6.0
*Vanguard Fixed Income-Inv Gr	B	C	6.1
*Vanguard Fixed Income-S-T	C	A	9.2
*Vanguard Preferred Stock Fund	A	C	6.4
Venture Income (+) Plus	F	A+	–15.8
*Vestaur Securities	A+	D	6.9

*Fund has no load or shareholder-paid 12b-1 plan.

Municipal Bond Funds

Tax-exempt funds are rated here if they have five years of performance history and $500 million of assets (or, for single-state funds, $100 million). Raw performances for New York and California funds were adjusted to compensate for their yield disadvantage in holding only local bonds. For more on the bond rating system, see page 110.

Fund	Performance in UP markets	Performance in DOWN markets	12-month total return
*AARP Insured T-F Inc-Genl Bond	B	D	6.3%
*Benham Calif Tax-Free-Intermed	D	A	7.0
*Benham Calif Tax-Free-L-T	B	D	6.7
California Tax-Exempt Bonds	D	A	7.3
Dean Witter Calif Tax-Free Inc	A	D	5.7
Dean Witter NY Tax-Free Income	B	D	4.0
Dean Witter Tax-Ex Secs	B	B	5.8
Delaware Group Tax-Free-USA	C	A	3.9
DMC Tax-Free Income Trust-Penn	C	B	4.6
*Dreyfus California Tax-Ex Bond	D	B	6.7
*Dreyfus Intermediate Tax-Ex Bond	D	A	6.7
*Dreyfus Massachusetts T-E Bond	D	C	6.1
*Dreyfus NY Tax-Exempt Bond	C	B	5.5
*Dreyfus Tax-Exempt Bond Fund	D	B	6.4
Eaton Vance California Munis	D	D	5.5
Eaton Vance High Yield Munis	D	C	3.5
*Fidelity Calif Tax-Free-High Yield	C	C	7.0
*Fidelity Mass Tax-Free-High Yield	D	B	7.4
*Fidelity NY Tax-Free-High Yield	C	B	5.1
*Fidelity NY Tax-Free-Insured	B	C	6.2
*Fidelity State T-F-Mich High Yield	C	C	5.1
*Fidelity State T-F-Minn High Yield	D	B	7.2
*Fidelity State T-F-Ohio High Yield	C	D	7.5
*Fidelity Tax-Free-Aggressive	D	A	7.4
*Fidelity Tax-Free-High Yield	B	B	8.4
*Fidelity Tax-Free-Municipal Bond	B	C	6.9
First Investors Insured Tax-Ex	D	A	6.0
First Investors NY Insured T-F	D	A	5.8
Flagship Tax-Ex-Michigan Triple	A	C	5.3
Flagship Tax-Ex-Ohio Double	B	C	6.2
Franklin Calif Insured T-F Inc	B	D	6.3
Franklin Federal Tax-Free Income	C	C	5.5
Franklin Insured Tax-Free Income	A	D	6.6
Franklin Mass Insured T-F Income	C	D	5.1
Franklin Mich Insured T-F Income	C	C	6.1
Franklin Minn Insured T-F Income	C	C	5.8
Franklin NY Tax-Free Income	C	B	4.7
Franklin Ohio Insured T-F Income	C	C	6.6
General NY Municipal Bond	D	A	6.7
Hawaiian Tax-Free Trust	D	A	5.9
IDS High Yield Tax-Exempt Fund	C	B	7.0
IDS Tax-Exempt Bond Fund	A	F	4.6
Kemper California Tax-Free Inc	B	B	6.7
Kemper Municipal Bond Fund	B	C	6.7
Keystone Tax-Exempt Trust	B	D	5.6
Lord Abbett Calif Tax-Free Inc	B	C	7.3%
Lord Abbett Tax-Free-New York	B	B	6.3
Merrill Lynch Calif Muni Bond	C	C	6.2
Merrill Lynch Muni-Hi Yield	C	B	5.9
Merrill Lynch Muni-Insured	B	C	7.1
MFS Managed High Yield Muni Bond	F	A	3.1
MFS Managed M-S Tax-Ex-Mass	D	B	6.5
MFS Managed M-S Tax-Ex-NC	C	B	6.3
MFS Managed M-S Tax-Ex-Virginia	D	B	6.8
MFS Managed Municipal Bond	A	C	6.3
New York Muni Fund	D	F	6.5
Nuveen Municipal Bond Fund	C	B	6.3
Pacific Horizon-Calif T-E Bond	D	B	6.3
PaineWebber Calif T-E Income	C	B	5.8
*T Rowe Price Tax-Free Income Fund	B	D	5.9
Pru-Bache Calif Municipal	C	D	5.7
Pru-Bache Muni-New York	B	D	4.6
Pru-Bache Natl Municipals	B	D	8.7
Putnam Calif Tax-Exempt Income	C	B	6.9
Putnam New York Tax-Exempt Inc	A	C	3.9
Putnam Tax-Exempt Income	A+	D	4.9
Putnam Tax-Free Income-Hi Yld	D	A	3.8
*Scudder Calif Tax-Free Fund	B	C	6.4
*Scudder Managed Muni Bonds	A-	D	6.8
*Scudder NY Tax-Free	C	C	4.3
Seligman Tax-Exempt-Mass	B	D	5.4
Seligman Tax-Exempt-Michigan	A	D	5.9
Seligman Tax-Exempt-Minnesota	B	C	6.5
Seligman Tax-Exempt-Ohio	A	D	6.6
Shearson Calif Municipals	C	B	6.8
Shearson Income-Tax-Ex Income	C	B	5.0
Shearson Managed Municipals	C	C	5.2
Shearson NY Municipals	C	B	5.3
*SteinRoe Managed Municipals	A	D	7.0
Tax-Ex Bond Fund of America	B	C	6.2
United Municipal Bond Fund	A+	F	5.6
*USAA Tax-Exempt-High Yield	B	C	6.5
*USAA Tax-Exempt-Intermediate	D	A	6.7
Van Kampen Merritt Ins T-F	B	C	7.1
*Vanguard Muni Bond-High Yield	A+	D	5.9
*Vanguard Muni Bond-Ins L-T	A	D	7.0
*Vanguard Muni Bond-Intermed	C	B	7.2
*Vanguard Muni Bond-Long-Term	A+	D	6.8
*Vanguard Muni Bond-S-T	F	A+	6.6
Voyageur Minnesota Tax-Free	D	A+	7.0

*Fund has no load or shareholder-paid 12b-1 plan.

The Forbes Wall Street Review

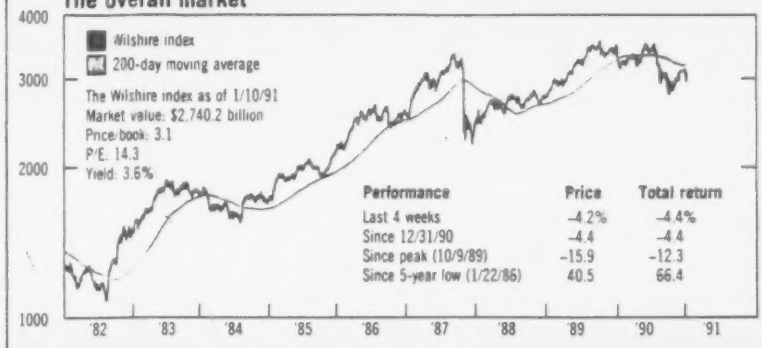
By Eric S. Hardy

Wall Street got off to a terrible start in 1991, with a 135-point drop in the Dow industrials during the first two weeks. Fans of technical analysis have further reason to be depressed: The market is exhibiting lackluster trading volume, and many fewer stocks are hitting new highs than are hitting new lows. One good reason for the jitteriness is uncertainty about resolution of the Persian Gulf mess; another, of course, is the recession that may already be under way.

The cancelation of the A-12 naval bomber program was a setback for McDonnell Douglas and General Dynamics, the two prime contractors. But Prudential-Bache analyst Paul Nisbet, taking a contrarian view, says the worst is probably over for some defense stocks. He sees buying opportunities in high-quality, diversified defense contractors like Boeing, Martin Marietta and Raytheon. "Even if there's no trouble in the Middle East and/or the defense budget is cut further, it's not like these companies are going out of business," says Nisbet. At 45⅛, Boeing sells at 9 times projected earnings for 1991; Raytheon trades at 67¾ for an estimated price-to-earnings multiple of 8.

Although Northrop derives 89% of its revenues from the federal government, Nisbet also rates it a buy on fundamentals. At a recent 17, Northrop trades at 80% of book value and offers a 7% yield.

The overall market[1]



The Best Performing Stocks

Company	Price	2-week change	P/E	Avg vol (thou)[2]	Rel vol[3]
Navistar International	2⅞	44%	NM	7,627	1.4
Comdisco	21⅛	19	10	1,137	2.1
Xerox	39¾	15	7	5,326	1.6
Teledyne	16⅛	14	9	1,275	1.2
Gulf States Utilities	11½	14	NM	1,572	0.8

The Worst Performing Stocks

Company	Price	2-week change	P/E	Avg vol (thou)[2]	Rel vol[3]
McDonnell Douglas	27¼	-31%	4	5,412	2.5
United States Cellular	15⅛	-22	NM	49	0.6
Enron Oil & Gas	17⅛	-22	46	410	1.4
First Interstate Bancorp	20½	-18	NM	2,046	0.6
First Fidelity Bancorp	14¾	-17	NM	809	0.8

Closeup on the Market

Index or investment	Price	2-week change
Wilshire index 6,000 stocks, capitalization weighted	2,963.7	-3.9%
Wilshire index 6,000 stocks, equal weighted	16.9	1.2
Dow Jones industrials 30 stocks, divisor-adjusted price average	2,498.8	-4.8
S&P 500 Capitalization weighted cross section, major stocks	314.5	-4.2
NYSE Capitalization weighted, all listed common stocks	172.4	-3.9
Amex Capitalization weighted total return: stocks, warrants	299.0	-1.5
Nasdaq Capitalization weighted, all issues except warrants	361.9	-2.5
Amex international market index Capitalization weighted, 50 large ADRs	284.2	-1.7

Index or investment	Price or rate	2-week change
Europe, Australia, New Zealand and Far East[4] (EAFE) a dollar denominated capitalization weighted index	769.90	-1.6%
Institutional[5] Approximately 200 stocks with high institutional ownership	9.57	-3.8
Individual[5] Approximately 200 stocks with low institutional ownership	79.84	-1.7
Russell 2000 index 2000 stocks with small market values, capitalization weighted	127.56	-2.3
Gold[6] (composite quote of 6 major dealers)	$390.40	1.4
Yen[6] (per $U.S.)	134.20	-1.6
Commodity index[6] (CRB futures index, 1967 = 100)	220.60	-0.3
Oil[6] (W Texas Intermediate)	$27.70	3.7
T bills[6] (90 days)	6.22%	-25 basis points[7]
Broker loan rate[6]	9.00%	-25 basis points[7]

Note: All data for periods ending 1/10/91. Wilshire index reflects price performance. It differs slightly from market value of outstanding stocks because of retirements of equity since index was created. Stocks listed above have market capitalizations of $500 million or more. [1]Capitalization weighted, prepared by Wilshire Associates, Santa Monica, Calif. [2]Average daily volume over a 2-week period. [3]Average daily volume over the last 2 weeks, divided by the average daily volume over the preceding 3 months. [4]Morgan Stanley Capital International Perspective. [5]For period ending 1/11/91. A. Arbel, Cornell University, using Ford Database from Ford Investor Services. [6]Knight-Ridder Financial Information. [7]A basis point is equal to one-hundredth of a percentage point. NM: Not meaningful.

New Issues Review

By Robert Balancia

The biggest[1]

Company/business	Exchange	Offer date	Offer price	Recent price	Offering ($mil)	Lead underwriter	Performance to date absolute	Performance to date rel to mkt[2]
Am Waste Svcs/waste mgmt svcs	N	10/4/90	10	12 ¼	$48	Goldman Sachs	23%	116
Neozyme/pharmaceuticals	O	10/26/90	23	28 ¼	46	PaineWebber	23	113
In Focus Systems/electronics	O	12/20/90	9½	11	24	Bear Stearns	16	116
Health Risk Mgmt/consulting svcs	O	12/19/90	11	14	15	Wessels Arnold	27	127
Northrim Bank/bank holding co	O	11/5/90	8	8 ¼	9	Wedbush Noble Cooke	3	98
Universal Intl/wholesaling	O	10/12/90	5	5 ¼	5	Craig-Hallum	5	95
Car Mart/consumer finance	O	12/11/90	3	2 ⅜	4	DH Blair	–10	89
Air-Cure Environmental/filtration prods	O	12/14/90	5⅛	5 ½	4	Rosenkrantz Lyons	8	107
Pamet Systems/computer networks	O	11/1/90	5	6	4	AS Goldmen	20	112
Everest Medical/medical svcs	O	12/6/90	3¾	4 ¼	4	Miller Johnson	13	113

Performance Update

The new-issues market was miserable in 1990. According to Securities Data Co. of Newark, N.J., initial public offerings (excluding ADRs, closed-end funds and limited partnerships) dropped from $4.9 billion in 1989 to slightly less than $4 billion. This is the worst showing since 1984, when $2.7 billion was raised. "The market is very emotional, and the Persian Gulf crisis has had a chilling effect on new-issue and equity filings," says Thomas Piper, a managing director at Dillon, Read. The backlog of new issues in registration—a good indicator of what's ahead—is an unimpressive $2.3 billion.

During the third quarter of 1990, the tenth-largest new issue had an offering value of $41 million. Last quarter Everest Medical, a $4 million offering, was the tenth-largest IPO. In the fourth quarter there were only five new deals over $5 million in size. That's why we had to drop our minimum cutoff for tracking IPOs from $5 million to $3 million.

For the year, energy remained the most active sector of the weak IPO market. Despite the invasion of Kuwait, there weren't any energy-related issues going public in the final quarter. But in the first three quarters the oil and gas industry raised a total of $739 million, enough to put it in first place for the year.

The best[1]

Company/business	Offer price	Offering ($mil)	Lead underwriter	Performance to date absolute	Performance to date rel to mkt[2]
Health Risk Mgmt/consulting svcs	11	$14	Wessels Arnold	27%	127
Neozyme/pharmaceuticals	23	46	PaineWebber	23	113
Am Waste Svcs/waste mgmt svcs	10	48	Goldman Sachs	23	116
Pamet Sys/computer networks	5	4	AS Goldmen	20	112
In Focus Sys/electronics	9½	24	Bear Stearns	16	116

The worst[1]

Company/business	Offer price	Offering ($mil)	Lead underwriter	Performance to date absolute	Performance to date rel to mkt[2]
Car Mart/consumer finance	3	$4	DH Blair	–10%	89
Digital Biometrics/computer prods	3	4	RJ Steichen	0	99
Northrim Bank/bank holding co	8	9	Wedbush Noble	–3	98
Universal Intl/wholesaling	5	5	Craig-Hallum	5	95
Express Cash Intl/pawn shops	6	4	Commonwealth Assoc	6	106

The most active investment bankers[3]

Underwriter	Total offerings	Total raised ($mil)
Goldman Sachs	8	$992
Alex Brown & Sons	16	433
First Boston	4	283
PaineWebber	10	274
Morgan Stanley	7	241

Industries going public[3]

Industry	Total offerings	Total raised ($mil)
Oil & gas svcs	13	$739
Magazine publishing	1	420
Computer systems	10	326
Electronics	10	262
Insurance	4	219

Notes: Initial public offerings of common equities with offer date of 9/30/90 to 12/31/90, offering price of $2.50 or more and offering value of $3 million or more. Closed-end funds, limited partnerships, and ADRs (American Depositary Receipts) of corporations already traded in foreign countries are excluded, as are REITs and spinoffs. [1]Last quarter. [2]The ending value of $100 invested in the stock, divided by the ending value of $1 invested in the market. [3]Latest 12 months. Source: Securities Data Co.

The current stock market looks a lot like 1970-73. Now, as then, huge opportunities are in the making.

A TWO-TIER MARKET

By David Dreman

The stock market in 1990 was like a wide-open football game: First the bears, then the bulls piled up big scores, only to see the game end as a squeaker, with the S&P 500 down fractionally. However, the major gyrations in the S&P masked a critical underlying trend that could provide some major opportunities ahead.

The most important feature of the 1990 market was its two-tier nature: The S&P (and the DJI) performed far better than other stock indexes, as the table here indicates. Last year the Value Line (which equally weights 1,700 companies) was down 24.3%, or almost four times as much as the S&P 500, while the Russell 2000 (small caps) declined 21.5% and Nasdaq (over-the-counter) dropped 17.8% (not adjusted for dividends).

But the disparity does not stop here. Even within the S&P 500 the discrepancy between the largest- and smallest-cap stocks was enormous. The 100 largest companies, which represent over 60% of the index' value, were down only 2.6%, compared with 20% for the 100 smallest caps. The lower the market cap, the worse the performance within the index. The table clearly shows that in both 1989 and 1990 most stocks substantially underperformed the S&P 500, which is dominated by the 100 largest caps. For the two years, for example, the 100 largest stocks in the S&P outperformed the Value Line by an astounding 55%.

Even within the S&P's 100 largest market caps, there was a tremendous difference in returns between the highest- and lowest-P/E groups. The highest 20% of P/Es in the largest-cap group returned 62% for the two-year period, compared with only 11% for the lowest-P/E stocks.

The new two-tier market

Large-cap stocks blew out their small-cap brethren within and outside the S&P 500 in the past two years. But the enormous differential in performance forbodes a change not far off.

Index	1989	1990	2-year compound return	9/1/87 to 12/31/90 return
S&P 500*	27.3%	–6.6%	18.9%	0.1%
S&P 100 largest caps*[1]	33.2	–2.6	29.7	6.0
S&P 400*[2]	25.6	–13.0	9.3	–6.8
Value Line*	11.2	–24.3	–15.8	–31.5
Russell 2000*	14.2	–21.5	–10.3	–23.7
Nasdaq*	19.3	–17.8	– 2.0	–17.8

*Not dividend-adjusted. [1]100 largest caps in S&P 500 equally weighted. [2]Other 400 companies in S&P 500 equally weighted.

We have not had a two-tier market like this since 1970-73. While thousands of stocks are down sharply in the past two years and off even more from their 1987 highs, a handful of large-cap stocks that investors believe to be almost immune to economic conditions continue to flourish. Then, as now, lots of people think this small group of supposedly sacrosanct companies will be able to provide higher earnings annually almost to the hereafter. But 1973-74 is a clear warning of what will happen to the new Nifty Fifty if they falter either because of earnings disappointments or because investor preferences change. When the market disintegrated in the early 1970s, the top tier dropped almost 90% and lagged for years.

While the current excesses are not as pronounced in the top tier as they were in the early 1970s, they are almost as harsh on the out-of-favor groups. Companies that are small or medium-size or whose near-term earnings prospects are disappointing are relegated to the darkest corners of the bargain basement. The disparity between the loved and unloved is near its widest spread in almost two decades.

History has shown that severe valuation extremes do not last long. The likely course, since most stocks are reasonably priced, even discounting a fairly severe recession, is to see a major improvement in the relative performance of small caps, cyclicals and other groups badly out of favor. Just as these groups have lagged dramatically for a considerable period, there is a good chance they will outstrip the top-tier group, as investors begin to focus on higher company earnings beyond the recession.

Here are five low-P/E small-cap stocks that look undervalued:

Blair Corp. (36) trades at a P/E of 9, yielding 6.1%.

Collective Bancorp (7) trades at a near 50% discount to book, a P/E of 5 and yields 3.4%.

Foote, Cone & Belding (19) has a P/E of 10 and yields 6.1%.

Garan Inc. (25) trades at a P/E of 6, yielding 5%.

Gibson Greetings (24) trades at a P/E of 9, yielding 1.4%. ■

David Dreman is managing director of Dreman Value Management, L.P., Investment Counsel, New York, and author of The New Contrarian Investment Strategy.